U.S. Commission to investigate...

Agricultural Credit.

63D CONGRESS 2d Session | SENATE | Doc. No. 380 Part III

AGRICULTURAL CREDIT

PERSONAL OR SHORT-TERM CREDIT

REPORT OF
THE UNITED STATES COMMISSION
TO
INVESTIGATE AND STUDY IN EUROPEAN COUNTRIES COOPERATIVE LAND-MORTGAGE BANKS, COOPERATIVE RURAL CREDIT UNIONS, AND SIMILAR ORGANIZATIONS AND INSTITUTIONS DEVOTING THEIR ATTENTION TO THE PROMOTION OF AGRICULTURE AND THE BETTERMENT OF RURAL CONDITIONS

PART III

PRESENTED BY MR. FLETCHER

MARCH 13, 1914.—Referred to the Committee on Banking and Currency and ordered to be printed

WASHINGTON
1914

UNITED STATES OF AMERICA
GOVERNMENT PRINTING OFFICE

LETTER OF TRANSMITTAL.

UNITED STATES COMMISSION "TO INVESTIGATE AND STUDY IN EUROPEAN COUNTRIES COOPERATIVE LAND-MORTGAGE BANKS, COOPERATIVE RURAL CREDIT UNIONS, AND SIMILAR ORGANIZATIONS AND INSTITUTIONS DEVOTING THEIR ATTENTION TO THE PROMOTION OF AGRICULTURE AND THE BETTERMENT OF RURAL CONDITIONS."

WASHINGTON, D. C., *March 13, 1914.*

To the Senate and the House of Representatives:

We have the honor to submit herewith Part III of the report of the United States commission, appointed by the President and authorized by an act approved March 4, 1913, "to investigate and study in Europran countries cooperative land-mortgage banks, cooperative rural credit unions, and similar organizations and institutions devoting their attention to the promotion of agriculture and the betterment of rural conditions" and "to submit a report to Congress as early as practicable embodying the results of its investigations and such recommendations as it may see fit to make."

Parts I and II, relating to land-mortgage or long-term credit, were submitted to Congress on January 29, 1914, and printed as Senate document No. 380, Parts I and II, Sixty-third Congress.

Part III relates to personal or short-term credit.

Respectfully,

DUNCAN U. FLETCHER, *Chairman.*
RALPH W. MOSS, *Vice Chairman.*
THOMAS P. GORE.
HARVIE JORDAN.
JOHN LEE COULTER, *Secretary.*
KENYON L. BUTTERFIELD.
CLARENCE J. OWENS.

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Part III.

PERSONAL OR SHORT-TERM CREDIT.

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PART III.

PERSONAL OR SHORT-TERM CREDIT.

WASHINGTON, D. C., *March 13, 1914.*

To the Congress:

The last paragraph of the act making appropriations for the Department of Agriculture for the fiscal year ending June 30, 1914, approved March 4, 1913, authorized the creation of the United States Commission and defined its duties as follows:

That the President of the United States shall appoint a commission composed of not more than seven persons, who shall serve without compensation, to cooperate with the American Commission assembled under the auspices of the Southern Commercial Congress to investigate and study in European countries cooperative land-mortgage banks, cooperative rural-credit unions, and similar organizations and institutions devoting their attention to the promotion of agriculture and the betterment of rural conditions; and for the purpose of its investigations the commission shall be authorized to incur and have paid, upon the certificate of its chairman, such expenses in the city of Washington and elsewhere for the payment of the salaries of employees, clerks, stenographers, assistants, and such other necessary expenses as the commission may deem necessary: *Provided,* That the total expenses incurred for all purposes shall not exceed the sum of $25,000; and the said commission shall submit a report to Congress as early as practicable embodying the results of its investigations and such recommendations as it may see fit to make.

In pursuance of the authority conferred on him by this act, President Wilson named as the members of this commission:

United States Senator Duncan U. Fletcher, of Florida.
United States Senator Thomas P. Gore, of Oklahoma.
Congressman Ralph W. Moss, of the fifth district of Indiana.
Col. Harvie Jordan, planter, of Atlanta, Ga.
Dr. John Lee Coulter, agricultural expert of the Census Bureau, Washington, D. C.
Dr. Kenyon L. Butterfield, president of the Massachusetts Agricultural College, Amherst, Mass.
Dr. Clarence J. Owens, managing director of the Southern Commercial Congress, Washington, D. C.

The members perfected an organization with Senator Duncan U. Fletcher as chairman and Congressman Ralph W. Moss to act as chairman in his absence, and with Dr. John Lee Coulter as secretary.

On January 29, 1914, your commission made its report pertaining to long-term or land-mortgage credit. This report pertains to personal or short-term credit.

From all information that the commission has assembled on the status of personal or short-time credit for farmers in the United States it is clear that very different conditions exist in different

parts of the country. In some it is perfectly clear that farmers have most of the institutions necessary, so far as personal or short-time credit is concerned. In all parts of the country farmers patronize to a greater or less extent small and medium national banks, small and medium State banks, as well as private banks. To a considerably smaller extent they patronize and are served by loan and trust companies and savings banks, both mutual and stock. Some other institutions of less importance are to be found.

In addition to these regularly established and recognized financial institutions, farmers are also served extensively or patronize extensively individual lenders. Farmers both borrow and lend as individuals to individuals, and also borrow from individuals other than farmers to a considerable extent, and possibly lend in some cases. Then, too, farmers depend upon the local stores and representatives of commission houses and other buyers of farm products and dealers in farm supplies for credit to a very large extent.

There are no data available to show how many farmers patronize the different institutions and agencies noted above, nor are data available to show to what extent they patronize these institutions. It is possible, however, to show the number of each type of institution indicated above, and it is also possible to show the number of persons who cater to farmers.

In the reports of the Comptroller of the Currency will be found statistics showing the number and location of national banks, State banks, private banks, loan and trust companies, mutual savings banks, and stock savings banks. The same reports show the extent to which these institutions lend with real property as security and also the extent to which commercial paper is backed by collateral or is " one-name " or " two-name " paper. They also show the extent to which this is " demand " or " time " paper.

The " occupation " statistics, published by the Bureau of the Census, Department of Commerce, show the number of real-estate agents, bankers, storekeepers, etc. It is not essential, however, in a brief report, to go into all of these details, although they should all be kept in mind in any movement to secure new legislation.

One of the first very definite and fundamental observations which must be accepted as a result of an examination into the characteristics of financial institutions in this country which serve farmers so far as credit is concerned is *that they were not constructed to serve the special needs of the farmers.* Because the financial institutions have not been constructed to serve the special needs of the farmers, other institutions, such as stores of all kinds and persons who are the purchasers of and dealers in farm products, have often been forced to furnish the financial aid necessary.

An illustration of the peculiar difficulties of short-term credit is given by J. R. Cahill, Esq., in a recent report (Agricultural Credit and Cooperation in Germany, S. Doc. No. 17, 63d Cong.). He states, on page 17:

For the provision of this form of credit in adequate amount and on suitable conditions as to interest and repayment, farmers, especially medium and small farmers, require a different credit organization from that which has been evolved for merchants and manufacturers; and for certain rather obvious reasons. The outstanding feature of the agricultural industry is the length of period of production. Within limits the manufacturer can hasten at will the process of production, and repeat his products, or the trader can restock his

store several times within the year; for the farmer the time of beginning and the time of finishing production are fixed by nature. Although the duration of the period of production may be shortened to some extent, artificial hastening processes are not applicable in most cases, and lack the effectiveness of the machine in industry. In certain important branches of agriculture the period of production may extend over several years: Thus a foal requires three or four years, and a calf two or three years before becoming utilizable or marketable. And the returns of agricultural production are more uncertain than those of commerce and industry owing to accidents of harvest, risk of disease, perishability of produce, and other causes. Another peculiarity—making due allowance for depressions and for numerous seasonal trades outside agriculture—is the irregularity of monetary returns from year to year, or their tendency to fall in certain months or periods in each year. Unless his farming is mixed [diversified] the farmer obtains his main receipts in autumn when he sells his crops [or other farm products, such as beef animals, wool, etc.]. Under these circumstances a banking system which aims at a rapid turnover of funds and grants credits of three and four months, with one or two renewals for like periods, is of very little advantage.

These special circumstances of agricultural production have been carefully studied by the commission.

PEOPLE'S BANKS.

Most European countries have recognized the different needs of the different classes of people, such as merchants, manufacturers, farmers, etc., and different institutions exist to serve the different classes; and yet it is true that in several countries there is one type of institution which to a very large extent serves the different classes, thus demonstrating that it is not absolutely essential that separate and distinct institutions exist.

It is not necessary to review here the different general financial institutions in European countries; this has been done by the Monetary Commission. But it is necessary to review certain special institutions which serve agriculture to a very large extent in addition to their other financial activities. The most important type of institution of this class is that popularly known as the "People's Bank." The best illustrations are found in Germany, Austria, and Italy, but some other countries have institutions quite similar in many if not most respects.

This particular institution developed in Germany, where it is popularly known as the "Schulze-Delitzsch" type of bank. It is described here first because it resembles in many respects the small private, state, and national banks found in many parts of the United States. It is quite probable that slight changes in our national banking laws would make it possible for the small banks of this country to extend their activities so that they might serve the same purpose in the same way that these banks now serve the farmers of Germany, Austria, Italy, and other European countries.

NUMBER OF BANKS AND MEMBERSHIP.

According to the latest report available (statistics of 1911) there were in Germany 1,051 of these banks which furnished details of their operations, which is about one-seventh of the number of national banks in the United States. The first important characteristic is the fact that the average membership of these German banks in 1911 was 639. This is doubtless many times the number of mem-

bers or owners of stock in the average national, state, or private bank in the United States. This is one of the reasons why these institutions are called "popular banks." An analysis of the type of membership shows the following:

	Per cent.
1. Independent agriculturists (farmers, etc.)	26.61
2. Wage-earning agriculturists (laborers, etc.)	2.42
3. Artisans	22.80
4. Merchants, manufacturers, etc	19.00
5. Workmen, apprentices, and wage-earners generally	11.30
6. Professional men, civil servants, clerks, etc	9.09
7. Persons living on pensions or possessing independent means	8.78
	100.00

From this little table it will be seen that 26.61 per cent of all members are independent farmers, and an additional 2.42 per cent represents farm laborers. This is the largest individual class of members.

In Austria this type of bank has grown very rapidly and the number far exceeds the number in Germany, where they developed first. In 1912 there were in Austria 3,599 of these institutions. Complete details for 1910 were secured from 2,862 of these banks, and they reported a membership of 1,704,090, which is an average of 595 members per bank.

It will be seen that in this respect the Schulze-Delitzsch banks of Austria are very similar to those of Germany. It is not necessary to speak at length of these popular banks of Austria, however, since they are only of minor importance so far as agriculture is concerned.

A new type of bank started in Austria (see description on p. 86), and after this the Schulze-Delitzsch banks gave very little attention to the needs of the farmers, but even up to now the Schulze-Delitzsch banks make loans for fairly large amounts to farmers known to be of good financial standing. Small loans are exclusively handled by the new type of bank to be described below. Only in Bohemia, Moravia, and Galicia are the Schulze-Delitzsch banks at all numerous among the farmers and serve to supply their needs. In this respect these banks, except in their general organization, serve the farmers just the same as small state, national, and private banks in rural districts.

In Italy the people's banks are called "Luzzatti banks," after the leader who adapted the Schulze-Delitzsch banks to Italian needs. They are almost identical in general organization with the Schulze-Delitzsch banks of Germany and of Austria. In 1908 the latest complete statistics available, there were 690 of these institutions in Italy, with a membership of 501,022, showing an average of 726 per bank, which again shows how similar this institution is to those found in the countries above referred to.

In Italy, as in Germany and Austria, the people's banks preceded the strictly rural banks, and in Italy, as in Germany and Austria, for a long period they served the farmers very considerably; but as in these two other countries so in Italy, they gave way to a new type of bank adapted particularly to the needs of the farmers. It should be noted, however, that just as they continue in Germany to have a large number of farmer members, so in Italy the same general condition prevails. The larger number of members of people's banks in Italy belongs to the lower middle class; 23 per cent are artisans or

small shopkeepers, 22 per cent small farmers, and 17 per cent clerks and professional men, leaving a comparatively small proportion for other classes of members.

It will not be necessary to refer to similar institutions in other countries in order to bring out this fundamental fact, that these European countries did not have small banks to serve the general needs of the great mass of the middle classes. In this country we have small national banks, State banks, and private banks. In European countries a type of institution, with a more diffused membership, developed to serve the needs of farmers. These institutions, some of which have been briefly referred to above, are made more popular for farmers than banks in this country, but they do about the same kinds of business. It is very probable that the banks of this country serve the farmers approximately to the same extent that these people's banks do in European countries. Inasmuch as they seem to fill the same general position in the national economy as those in the rural sections of this country, it seems desirable to give a brief further account of their general characteristics and form of organization.

SHARE CAPITAL.

The people's banks in different European countries secure their first capital by the issuing of shares; these shares are owned by the members. In the different countries visited the general impression was that the value of the shares was rather high. In 740 of these banks in Germany, which are affiliated with the National Federation, the shares are of a nominal value of approximately 300 marks, or $71.

It is not necessary that the shares be paid for in one sum, however, the general arrangement being that members may pay for them in monthly installments. Toward payment for the share or shares subscribed by a member are placed, in addition to the monthly installment, any dividend which becomes due to him on a division of the profits. Only when the share is fully paid up does he receive such dividend in cash. The prospect of receiving dividends in cash incites the members to make every effort to complete their payment in the least possible time and thus become the actual owners of capital, even though it be on a modest scale.

The average paid-up capital per member naturally differs from the value of a share, inasmuch as not infrequently a member has paid up only part of the value of a share, while others have in their possession two or more shares. If we regard only the banks affiliated with the National Federation in Germany, we find that in 1882 the average paid-up capital was 223 marks ($53), increasing successively to 226 marks ($54) in 1892, 276 marks ($65) in 1902, and 364 marks ($87) in 1911. Some of these banks not attached to the National Federation have a slightly higher average paid-up capital per member, the result being that the average for all banks of this type in Germany in 1911 was 368 marks ($88).

This total average paid-up capital per member is a further illustration of the popular characteristic of the banks. There are large numbers of members, and the banks are interested principally in the welfare of their own people. But with this large membership the total amount of share capital per institution is comparatively

large, the average for Germany being 235,294 marks ($56,000) in 1911.

It will be noted from the above that the tendency is for the average paid-up capital per member to increase, there being an increase of more than 50 per cent in the last 30 years. There is also the same tendency with reference to the average value of individual shares of stock. The General Congress of Popular Banks held at Wiesbaden in 1896 recommended that the shares should be at least 300 marks ($71), while a subsequent congress recommended that in all cases where the banks were based upon the limited-liability principle the minimum value per share should be 500 marks ($119), and that the liability of the member should be three times the amount of shares held.

In Austria the same general condition is found, except that the value of the shares is lower than found in Germany and the average paid-up capital per member is naturally lower. Of the 2,862 Schulze-Delitzsch banks, which furnish particulars of their working condition, in Austria, in 1910, the membership was 1,704,090 and the share capital only 192,000,000 crowns ($38,400,000), the average paid-up capital per member being only about 112½ crowns ($23). In Italy the total number of members of the 690 people's banks reporting was 501,022, while the paid-up capital (including surplus) amounted to 155,664,000 francs ($30,042,152), or an average of 311 francs ($60) per member.

LIABILITY.

One of the most important characteristics of the people's banks is their status with reference to the liability of the members. Under any system of cooperation the general understanding is that mutuality is accepted as the foundation; in other words, that unlimited liability is accepted by the members and that each member pledges himself to be liable to the full extent of his resources for all accounts of the society to which he belongs. This principle has been found to be practicable where all of the members live in close proximity to each other and are generally known to each other. This has been particularly so where all are engaged in the same general line of work and are of the same general economic status. More particularly do the principles of unlimited liability obtain successfully where membership is quite definitely limited to a comparatively small number and where the members are carefully selected.

In the case of the popular banks being described, generally speaking, they are urban in character, although probably about one-fourth of the members are farmers. In the second place, the occupation of the members ranges over a great variety of callings; and in the third place, the membership is quite large, in fact, so large that, generally speaking, it would be impossible for any one member to know any large per cent of the other members. As a result of this, although these banks started as unlimited liability societies, they have gradually changed in many respects. Thus in 1911 out of a total of 952 banks of this type which reported in Germany 563, or 59.1 per cent, were of the unlimited liability type, while 385, or 40.5 per cent, had limited liability, and 4, or 0.4 per cent, were of a special mixed type, having unlimited liability to make supplementary payments. The general tendency is in the direction of limited liability, but

although the system of limited liability is steadily increasing, unlimited liability is still considered the best system on which to establish these popular banks in districts which are not yet familiar with cooperative credit. The system of unlimited liability seems to work particularly well when the societies are just beginning and while the membership is small and the members acquainted with each other.

In Austria, out of the 3,599 banks of this type reporting in 1912, only 603 were based upon the principles of unlimited liability, while 2,996 had adopted the principles of limited liability. In Italy, like Austria, the liability of the members is limited.

WORKING CAPITAL.

According to the report furnished by the 1,051 popular banks of Germany, at the end of 1911 the aggregate working capital was 1,668,250,151 marks ($397,045,535). This is an average of 1,587,298 marks ($377,776) per bank. The average per bank is rapidly increasing, as shown by the fact that the average for all banks reporting in 1886 was only 617,000 marks ($146,846); that in 1898 was 800,000 marks ($190,400); and that in 1902 was approximately 1,000,000 marks ($238,000). The average working capital per institution is seen to be nearly three times as great as it was 20 years ago.

The following tables show the details for the 1,051 popular banks under consideration in Germany in 1911:

Popular banks in Germany in 1911.

Sources from which funds are derived.	Marks.	Percentage of total working capital.	Average per bank (marks).
The banks' own funds:			
Share capital	247,294,344	14.8	235,294
Reserve funds	105,799,673	6.4	100,666
Total	353,094,017	21.2	335,960
Capital from outside sources:			
Private deposits	1,276,172,048	76.5	1,214,245
Debts contracted with banks or associations	38,984,086	2.3	37,093
Total	1,315,156,134	78.8	1,251,338
Total working capital	1,668,250,151	100.0	1,587,298

It will be seen that only 14.8 per cent of the total working capital represents share capital, 6.4 per cent represents reserve funds, thus making the proportion of the banks' own funds 21.2 per cent of the total working capital of these institutions. It will also be noticed that more than three-fourths of the total working capital represents private deposits, showing the confidence of the people who live in the vicinity of the banks of this type.

The average amount of share capital per bank was 235,294 marks ($56,000), and the average per member was 368 marks ($87).

It was originally proposed by Schulze-Delitzsch that each bank should furnish its own working capital; in fact, for many years this was the ambition of the originators of this system of institutions.

Seeing that this was impossible, the ideal was set at one-third of the working capital. Even at the present time there is considerable agitation in favor of increasing each bank's capital; that is to say, the share capital and the bank's reserve. The reason that this does not progress more rapidly is a fact that will be particularly stated under a discussion of the dividends, profits, and losses. At this point it is only necessary to indicate that these institutions work for high profits or dividends. It is a well-known fact that the interest paid on deposits is generally very low. As a result, the higher the ratio of the banks' own funds to the total working capital the lower becomes the ratio of the net profits to the share capital, and the lower, therefore, becomes the dividend.

The experience of these institutions in Germany for the last few years is that it is possible to attract a very large capital from outside sources in the way of private deposits by the payment of a reasonable interest, while on the other hand it is a much slower and much more difficult proposition to accumulate working capital by increasing the membership and increasing the share capital or reserve funds. Indeed, during the last few years the increase of capital from outside sources has been greater relatively than the increase in the bank's own funds, thus leaving the proportion of the bank's own funds lower at the present time than what it was some years back.

A further analysis of the item "private deposits" discloses the fact that the banks recognize savings deposits as distinct from ordinary deposits subject to check. The savings deposits are generally much smaller accounts and require a longer period of notice before withdrawal. In practice this distinction means but very little at the present time and might as well be disregarded, and as a matter of fact is rapidly being disregarded by the people's banks.

It would doubtless be proper to add the sums which the banks acquire by rediscounting with third parties the bills which they have discounted for their members to the debt contracted with banks or associations if the total funds secured from the outside were to be shown. At the end of 1911 there were in circulation bills for 51,497,470 marks ($12,256,398). If this amount were added to the other two items representing outside capital, the total of this class would be 1,366,653,604 marks ($325,263,557).

In contrast with Germany, the total share capital of the 2,862 popular banks which reported in Austria in 1910 was 192,000,000 crowns ($38,400,000), an average of 67,086 crowns ($13,417) per institution. The reserve for these same institutions amounted to 109,000,000 crowns ($21,800,000), an average of 38,085 crowns ($7,617) per institution. The total amount of deposits in hand, which seem to be comparable with the item "private deposits" in the German report, amounted to 1,751,000,000 crowns ($350,200,000), or 611,810 crowns ($122,362) per institution. At the same time the amount of loan capital, which it would seem must represent debts contracted with banks or associations, amounted to 332,000,000 crowns ($66,400,000), an average of 116,003 crowns ($25,200) per institution.

The following table, constructed from data available for Austria in 1910, is comparable to the one prepared for Germany presented on page 15.

Popular banks in Austria in 1910.

Sources from which funds are derived.	Crowns.	Percentage of total working capital.	Average per bank (crowns).
The banks' own funds:			
Share capital	192,000,000	8.0	67,086
Reserve funds	109,000,000	4.6	38,085
Total	301,000,000	12.6	105,171
Capital from outside sources:			
Deposits on hand	1,751,000,000	73.4	611,810
Loan capital	332,000,000	14.0	116,003
Total	2,083,000,000	87.4	727,813
Total working capital	2,384,000,000	100.0	832,984

Turning attention now to the situation in Italy, the latest data available in complete form pertains to December 31, 1908. At that time figures were compiled for 690 institutions with a membership of 501,022, or an average of 726 per institution. The following table shows as nearly as practicable comparable data pertaining to the working capital in Italy:

Popular banks in Italy in 1909.

Sources from which funds are derived.	Francs.	Percentage of total working capital.	Average per institution (francs).
Paid-up capital	98,310,108	7.1	142,478
Reserve funds	57,354,279	4.1	83,122
Current account and savings deposits	971,167,644	70.7	1,407,489
Bills accepted and payments due	3,158,671	.2	4,578
Debit renewals	20,251,029	1.4	29,349
Rediscount of bills	72,280,849	5.2	104,726
Miscellaneous creditors	151,591,163	11.3	219,697
Total working capital	1,374,093,743	100.0	1,991,440

It will be seen that the total paid-up capital represented only 7.1 per cent of the working capital, as compared with 14.8 per cent for Germany and 8 per cent for Austria. It will also be noticed that the reserve funds amounted to only 4.1 per cent, as compared with 6.4 per cent for Germany and 4.6 per cent for Austria. In contrast, it should be noted that the current account and savings deposits, which correspond with the private deposits of Germany and the deposits in hand in Austria, represent 70.7 per cent of the total working capital of Italy, as compared with 76.5 per cent for Germany and 73.4 per cent for Austria.

LOANS AND INVESTMENTS.

It is just as important to examine into the loans and investments or the credit side of the balance sheet as it is to examine into the working capital or debit side of the balance sheet. A brief analysis of the use made by these popular banks of the funds at their disposal should therefore be made.

The principal object of these institutions is to supply credit for their own members, and therefore one would expect that they would limit themselves to the particular work of granting loans under varying forms to the membership. The fact that loans are, as far as possible, strictly limited to the membership is one of the most important, if not the most important, reasons why the membership is so large and why the average paid-up capital is so small. It is impossible, however, to make the funds on hand in banks exactly balance the demands for credit by their members. It is therefore necessary, when the working capital supplied by the paid-up share capital, surplus funds, and deposits are insufficient, to borrow from outside sources, and it is equally desirable, where the working funds referred to exceed the demand of the members, to seek outside fields of investment.

It is also desirable to create a surplus fund for the safety of their own operations in case of insolvency of their members or the sudden withdrawal by the members of their deposits. Naturally this surplus would not be loaned to the members, but would be invested elsewhere.

In Germany all loans to members are referred to as "loans," while loans of other types are referred to as "investments." According to the credit side of the balance sheet of the 1,051 people's banks in Germany in 1911, 82.9 per cent represented outstanding loans to members, while 17.1 per cent represented loans of other kinds referred to as "investments." An examination of the details concerning the 286,051,023 marks ($68,080,143), or 17.1 per cent, which represents the so-called "investments," shows that 4.2 per cent represents cash in hand, deposits with banks, etc.; 1.2 per cent bankers' acceptances; 6.5 per cent shares of stock or bonds held as investments; and 3.5 per cent real property, about one-half of which represents the offices, etc., the remainder being other real estate.

Referring now to the loans to members, the most important individual group or class is that known as "loans on current account." The total amount of this class as shown by the balance sheet at the close of 1911 was 544,065,524 marks ($129,487,595), or 32.4 per cent of the total credit of the institutions under consideration.

The next most important item is referred to as "loans for fixed periods," the amount being 469,660,330 marks ($111,779,158), or 28 per cent of the total.

In addition to these two items, reference should be made to the discount of commercial bills, amounting to 218,997,012 marks ($52,121,290), or 13.1 per cent; and "mortgages and other land credits," amounting to 158,086,387 marks ($37,624,560), or 9.4 per cent of the total credit.

The composition of the assets is seen from the table which follows:

Assets of popular banks in Germany in 1911.

Particulars.	Marks.	Per cent.	Average per institution (marks).
Loans for fixed periods	469,660,330	28.0	446,869
Loans on current account	544,065,524	32.4	517,664
Discount of commercial bills	218,997,012	13.1	208,370
Mortgages and other land credits	158,086,387	9.4	150,415
Investments	286,051,023	17.1	272,170
Cash in hand, deposits with banks, etc	71,000,000	4.2	67,554
Bankers' acceptances	20,800,000	1.2	19,790
Real property	58,400,000	3.5	55,566
Offices, etc	30,700,000	1.8	29,210
Other real property	27,700,000	1.7	26,356
Miscellaneous items	27,651,023	1.7	26,309
Shares and bonds	108,200,000	6.5	102,949
Total	1,676,860,276	100.0	1,595,488

It will be seen that the total amount of loans at the close of the year 1911 was 1,390,809,253 marks ($332,012,602), or an average of 1,323,318 marks ($314,950) per institution.

In contrast it should be noted that the loans outstanding at the end of the year 1910 for 2,862 Schulze-Delitzsch banks of Austria which furnished particulars was 1,985,000,000 crowns ($397,000,000), or 693,571 crowns ($138,714) per institution.

It should be noted also that the total amount of loans granted during the year 1911 for the 1,051 popular banks of Germany was 4,647,752,971 marks ($1,106,165,207), which is an average of 4,422,219 marks ($1,052,488) per institution.

In the case of the 2,862 Austrian banks under consideration the total amount of loans granted during the year 1910 was 2,087,000,000 crowns ($417,400,000), or an average of 729,210 ($145,842) per institution.

A study of the rules governing loans and investments shows that in the case of fixed-period loans a guaranty is almost universally demanded. Only in the most exceptional cases are loans granted without guaranty. Of the aggregate fixed-period loans less than 2 per cent are in this class. The guaranty usually demanded is either a special guaranty in the form of pledges or a personal guaranty in the form of surety. Loans on personal guaranty form 86.7 per cent of the total loans for fixed periods. Only 11.4 per cent, which is all of the remainder, is advanced with pledges as guaranty.

From the fact that more than seven-eighths of all loans for fixed periods are secured by personal guaranty, it is clear that these popular banks are serving the needs of the particular classes of persons for whom they were originally established; that is to say, persons who are in a position to furnish security necessary for doing business with ordinary banks.

The borrower may give as receipt for the debt his simple note of hand, or an "accommodation bill." The employment of bills in this connection is one of the characteristics of the Schulze-Delitzsch system, the desire being to train the debtors of the banks to punctuality in business and at the same time to simplify the collection of the interest.

Finally the popular banks having familiarized their customers with the use of bills have succeeded in diffusing the business of bill-discounting. As a general rule, the loans are fixed at 90 days. This term may be, and generally is, considered extended by renewals which, however, are generally conditional on the repayment in cash of at least 10 per cent of the amount. At each time that bills fall due, after a small amount has been paid, a new bill is created for the lower amount. Thus the members of the banks become accustomed to the payment of their obligations by installments. They also are accustomed to punctuality in their dealings, and payment is made more easily.

As noted elsewhere, loans on current account represent the largest individual class or type of business done, and differ from loans for fixed periods in that the loan is not made out for a fixed period of time or for a fixed amount. The general rule is that a maximum is established and the borrower is allowed to secure credit from the bank at any time within the maximum amount. During this same time the borrower may make deposits and in that way repay the loan wholly or in part at any time. It is also true that frequently borrowers have paid in amounts exceeding the amount borrowed and, therefore, have funds placed to their credit. Loans made on current accounts, like those made for fixed periods, may be guaranteed by surety, goods, or other effects, or even farm mortgages.

The third type of loan referred to, amounting to 13.1 per cent of the total loans and investments for the 1,051 popular banks of Germany in 1911, was entirely "discount of commercial bills." These refer to commercial bills which actually represent dealings in goods. They must be paid on falling due in their entirety. For this reason they not only afford extensive security to the popular banks, but they may in turn be rediscounted with other institutions whenever it is necessary to increase the working capital. As noted elsewhere, at the end of 1911 there were in circulation bills rediscounted with third parties amounting to 51,497,470 marks ($12,256,398).

The popular banks of Germany and other European countries—much like the national banks of this country—do not have at their disposal capital adapted to the form of investment represented by mortgage and other land-credit instruments, and as a result only 9.4 per cent of the loans and investments represent mortgage and other land credits.

It is impossible to determine when the banks are dealing with genuine mortgage business and not merely with mortgages accepted as additional security for loans granted under other forms. This is equally true with banks of this country.

PROFITS AND LOSSES.

The officers of the International Institute of Agriculture at Rome, in referring to the Schulze-Delitzsch banks of Germany, stated, "They accumulate a considerable quantity of capital and they distribute fairly high dividends." In the matter of dividends, indeed, the Schulze-Delitzsch banks differ very little from the various kinds of commercial banks in the United States.

In order to illustrate this point reference might be made to the fact that the gross profits realized in 1911 by the 1,051 banks reporting

was practically 90,000,000 marks. Out of this, however, approximately 50,000,000 marks were paid in the form of interest on capital from outside sources. The gross profits represented 5.29 per cent of the total working capital. The total amount of interest, however, paid on borrowed working capital represented only 3.86 per cent of the total working capital. It will thus be seen that the institutions secured their working capital at a comparatively low rate and they are thus able to work on a margin of interest which allows them a very satisfactory profit without pressing unduly on their debtors.

The cost of management during the year 1911 was about 14,000,000 marks, being 16.27 per cent, or about one-sixth of the gross profits. This, however, was only 0.09 per cent of the total business done. After all expenses had been paid, including interest on all borrowed capital, general expenses, depreciation, and all losses, the net profits remaining, which included the balance from the preceding year, amounted to 22,000,000 marks. This is 8.45 per cent of the share capital, showing a very satisfactory result.

All of the net profits are not distributed by the Schulze-Delitzsch banks, which, as shown above, are very anxious to bring their reserve up to a very high level. Of the net profits, 29.7 per cent, therefore, was placed in the reserve fund in 1911. In addition to this large proportion placed in the reserve, a considerable amount was also expended in aid of propaganda work which is carried on, such as the publication of literature, the employment of organizers, etc. This would be an unheard of thing in the business of banks in the United States. But further than this, a considerable part of the net profits was donated by the banks for works of public utility, and a considerable amount was also distributed among the several employees in the form of bonus. Thus these popular institutions recognize employees not on a strictly profit-sharing basis, but recognize them in such a way as to share with them the net profits. Only about 60 per cent of the net profits, which in 1911 amounted to 13,000,000 marks, was distributed in the form of dividends. Even at this the dividends are comparatively high and intentionally so in order that the members will purchase stock and pay for the shares as quickly as possible, thus giving the institutions a good working capital of their own. Dividends declared are calculated in proportion to the amount actually paid up on the share or shares of the individual members.

A recent investigation showed that a considerable number of persons become members without any view of borrowing, but merely for the sake of investing their savings in shares of stock in order to get the high rate of interest. Shares are frequently as high as $375, but inasmuch as the shares may be partly paid in at the beginning and gradually paid in completely this is no obstacle. Dividends of 6 and 7 per cent are not uncommon, and this is a decided incentive for persons to become members. Cahill (p. 19) says on this point:

> This is probably especially true of a large proportion of the women members returned as belonging to this group, and who numbered 13,203 out of a total of 170,673, or 7.7 per cent, in 1911.

Although these institutions distributed only 6 per cent of the net profits in 1911, 753, or more than two-thirds of the banks reporting, distributed dividends ranging from 5 to 7 per cent. When compared with the rate of interest charged the borrower and the rate of interest paid on deposits, this seems to be a very satisfactory business basis.

An examination of various extremes shows that two banks distributed dividends of only 2 per cent, but on the other hand 14 banks reached 10 per cent, 1 bank paid a dividend of 18 per cent, and another a dividend of 25 per cent, thus showing that some of these institutions are extremely profitable. Clearly the institutions paying such high percentages of dividends have a comparatively small paid-up share capital and comparatively large amounts of deposits, but the effort is to increase the share capital.

What has been said with reference to the situation in Germany applies with practically the same force to the other countries where this type of institution is found in existence. Without going into any considerable amount of detail, it is worth while to note that in Italy the dividends on paid-up capital averaged nearly 9½ per cent during the years 1880–1882. Since that time the share capital has gradually increased, as noted elsewhere, in proportion to the working capital, and as a result dividends on paid-up capital have not been quite as high. They are still high, however, averaging in every year for which complete reports were obtained nearly if not quite 7 per cent, and in some years during the last decade averaging over 8 per cent.

CENTRAL BANKS AND FEDERATIONS.

The people's banks do not stand entirely alone; they are related to each other through systems of clearing houses and federated centrals, and are in constant touch with other financial institutions. This feature of the system has been so frequently and thoroughly presented in printed reports that it seems unnecessary to describe it in detail in this brief statement.

SUMMARY.

From an examination of the above statement of facts, it is clear that the small national banks, together with a very large number of State and private banks, differ only in minor details from the people's banks of Europe. The real important difference is the fact that the people's banks of Europe have adapted themselves much better to the needs of farmers and grant loans extending over a sufficient period of time so that farmers are able to patronize them and get thoroughly satisfactory results.

RAIFFEISEN SOCIETIES OR RURAL CREDIT UNIONS.

It is not at all likely that the present system of National, State, and private banks and trust companies, even if the recommendations made by this commission are adopted, will properly take care of all the needs of all farmers for short-term or personal credit. There are in the United States nearly, if not quite, six and one-half million farms at the present time. Of these only about 4,000,000 are operated by owners and managers. In the whole country more than 800,000 farms are less than 20 acres in size. Some of these are intensively cultivated and their operators doubtless have definite connections with banks, but most of them are probably not recognized in the

regular banking associations of the present day. At the same time hundreds of thousands of farms larger than 20 acres in size are operated by farmers who have no direct relation with the present banking system. It is very probable that only a small proportion of the two and one-third million tenants have regular banking connections. Institutions to meet the needs of these operators of small farms and these tenant operators must be seriously considered.

In addition to these it should be noted that during the average year approximately 3,000,000 farm operators employ labor. These laborers should have an opportunity to open bank accounts, but their business is so small that they do not at the present time have any bank connections. All told there are literally millions of the farm population who have not at the present time any banking relation worthy of note. The needs of this type of farmers and farm laborers have been taken care of very largely in European countries by small institutions, popularly known as "Raiffeisen societies," "credit unions," "credit associations," "credit societies," etc. Institutions similar to these are needed in the United States; if not in every State, at least in the great majority of States; and if not in every community, at least in many communities. In order that these institutions may be thoroughly understood, the following brief description is appended, which shows in a summary way the most important characteristics of these societies in the countries where they are most highly developed.

NUMBER OF BANKS, MEMBERSHIP, AND AREA OF OPERATION.

During the last three decades credit unions under various names have increased rapidly in number. Indeed, prior to 1880 the number was very small and the system not well known, but at the present time farmers in all parts of Europe understand credit unions and talk in terms of "credit unions" as readily as farmers in the United States talk in terms of "corn" or any other farm product. In Germany alone there are at the present time probably 17,000 of these societies, while 20 years ago the number was only about 1,700. This is representative of the change that has taken place in other countries as well.

The first news concerning these institutions was brought to Italy in 1880, and a few years afterwards a credit union was started. At the present time there are more than 2,000 in Italy. In Austria the movement started in 1886, and credit unions have been increasing rapidly in number ever since the first one was established; at the present time there are about 8,000. Similar illustrations could be cited with reference to other countries. Most recent to take up the credit-union idea is Ireland, and success there is well known. The farmers of Russia are rapidly establishing these institutions as are the French farmers. The credit union is a well-known institution in eastern Canada, where large numbers of societies have been established. In some parts of the United States farmers are already talking in terms of credit unions, and students of the subject have commenced to urge their establishment, but as yet the movement is rather new.

Turning now to the question of membership it should be noted that the average number of members per bank in Germany is ap-

proximately 100. Thus in Germany probably 1,700,000 farmers belong to credit unions. The same general average number per institution is found in other countries and, therefore, the extraordinary extent to which farmers have organized these small credit societies must be clear. The number, however, varies materially from one institution to another. For instance, in Germany the minimum number of farmers necessary to establish a credit union is seven, and at the time of the visit of the United States commission the authorities reported the fact that six societies existed with the minimum number of members. On the other hand, one credit union had 15 times the average number of members.

The small number of members in each credit union clearly indicates the general type of institution under consideration. But it should be noted that the members are almost always located in the same community and are not widely scattered over any district. In Italy the sphere of operation of rural banks is restricted to a commune, a portion of a commune, or a parish. Similarly in other countries the smallest subdivision is generally used as the area of organization.

ENTRANCE FEES AND SHARE CAPITAL.

According to the conceptions of the originators of the credit unions, entrance fees were not advocated because of the idea of mutual help which was then predominant. For many years as a result of this original idea entrance fees were unknown. As institutions established themselves, however, in different parts of the country variations in fundamental plans took place, and in some districts entrance fees became an important feature. These fees were immediately placed in the reserve fund and did not draw interest but were used as a revolving fund to carry on the business of the organization.

Just as entrance fees were not countenanced during the early years, so, too, share stock was excluded in order to avoid any possible chance of capitalistic speculation. Until 1876 credit unions were established without any share capital. In that year the imperial law of Germany compelled all cooperative societies to have foundation capital, and as a result German rural credit unions since that time have had small amounts of capital stock. In order to keep away, however, from the capitalistic idea, the shares were placed at the very minimum price and, generally speaking, even yet the maximum price of shares is only about $2.50. In some regions the average paid-up share capital per member is only $1 or $1.50. On the other hand, one group of credit unions has made an effort to increase the share capital and comparatively large shares have been recommended, but in these cases the highest price has been approximately $125 per share. The credit unions striving for a large share capital have had in mind strengthening the institution with reference to the securing of deposits, making of loans, etc., but even at the present time share capital, generally speaking, is an unimportant feature.

It was noted above that in Germany the share capital represented 14.8 per cent of the total working capital in "popular banks." In contrast, the share capital represents only 1.2 per cent of the total working capital in the case of "credit unions" throughout the German Empire. In Italy, as a rule, the rural banks or credit unions have no real initial capital, and in Austria, the credit unions being

modeled after the German societies of the same type, each member is required to take a share, which, however, varies in amount from about $2 to $4.

LIABILITY.

The principle maintained by the credit unions throughout the early period of their development was that of unlimited, joint, and several liability of all members. It is true that the principles of limited liability are found more and more in many other forms of cooperation throughout Europe, but all authorities urge that the principles of unlimited liability be maintained in connection with the credit unions. At the present time 92 out of every 100 credit unions in Germany continue to maintain the rules of unlimited liability, while only 8 out of every 100 have adopted limited liability. In these few cases where limited liability has been adopted considerable share capital is found, and these few may well be referred to as a movement in the direction of popular banks, varying in many of their details from the true credit unions. Here and there a credit union is based upon an intermediate system commonly referred to as the system of unlimited liability "to make supplementary payments."

This particular variation of the principles of unlimited liability is found best developed in Austria. Indeed, the Austrian Government presented a bill to Parliament in 1911 modifying the law relating to cooperative societies, and the main purpose of the bill presented was to substitute the system of unlimited liability "to make supplementary payments" for the present system of unlimited, joint, and several liability of all members. The difference between the two systems consists in the fact that, according to the new proposals the creditor would not be able to have direct recourse, in case of the liquidation of the credit union, to any particular member and, therefore, could not demand the payment of the sum which remains due to him. The society or credit union would be responsible to the creditor, and as such the credit union would have the right to demand pro rata payments from the members until the creditors were completely satisfied.

In Italy, as in Germany, the rule is unlimited liability. The whole purpose of this important rule is to prevent the misuse of the loans by compelling members to keep an eye upon one another and see that loans are not abused. At the same time this rule gives the credit unions the confidence of the public, and, since these little societies depend upon the public for deposits as working capital, the confidence of the public must be secured and maintained.

WORKING CAPITAL.

It has already been pointed out that share capital is a very unimportant part of the total working capital of the credit unions of Europe. To this may be added the statement that the reserve fund also is a comparatively unimportant part of the total. But compared with the share capital the reserve holds a very important place. Thus in Germany the reserve funds are more than twice the share capital. The same may be said as a general thing for Europe as a whole. This will be better understood when reference is made to the fact that profits or net earnings are generally turned into the reserve fund and not distributed to the members.

The most important source of the working capital is found in deposits on current account and savings deposits. This point was carefully discussed in connection with the popular banks and need not be considered in great detail here, except to indicate that just as share capital is a more important feature in "popular banks," so private deposits are a more important feature when "credit unions" are under consideration. These observations pertain chiefly to Germany, Austria, and Italy. Just as the popular banks secured more or less of their working capital from outside sources, so, too, the credit unions depend upon the outside to keep the margin necessary for satisfactory business operations. In some countries, such as Hungary, France, and probably Russia, large dependence is placed upon funds secured from outside sources. Central institutions look after this business and act as clearing houses for the thousands of small credit unions.

In Germany as a whole probably less than 10 per cent of the total working capital comes from transactions with outside institutions, showing in contrast with some other countries how largely these small credit unions are self-managing and self-sufficing societies. They depend almost entirely upon the local deposits to take care of the demands for money or credit. In any effort to classify the deposits, note should be made of the fact that deposits on "current account" represent less than 10 per cent of the total working capital, while "savings deposits" are nearly 80 per cent of the total working capital. When we remember that the total working capital of these credit unions in Germany alone is more than $500,000,000, the extent to which these small primary units have succeeded and extended their influence throughout the Empire is very impressive.

Probably the distribution of the working capital of these institutions is much less important than the average working capital and the various parts thereof per institution. The popular banks were compared in many respects with the small national, state, and private banks of the United States. The credit unions have as yet practically no counterpart in this country. Thus the total working capital of the average "popular bank" in Germany was given as not far from $400,000. In contrast, the average working capital of each "credit union" is only about $40,000. Further comparison shows that the average share capital for "popular banks" in Germany is between $50,000 and $60,000, while the average share capital for all "credit unions" is less than $500. Further comparison in detail is unnecessary, since the general statement may be made that the average credit union is about one-tenth the size of the average popular bank. The credit union is the primary unit and is found so thoroughly established throughout Europe that its importance in the financial system can not be ignored. The importance of similar institutions to this country must be apparent, and the detailed description is given only to indicate the position which these societies might hold in his country.

The following table shows the details for 12,797 credit unions in Germany from which detailed information was secured. As noted above there are in Germany about 17,000 of these credit unions, but complete details could not be secured from all since they are not under general Federal supervision in any way and statistics must be secured from federations of credit unions:

	Amount.	Percentage of the total working capital.	Average per bank.
The banks' own funds:	*Marks.*		*Marks.*
Share capital	24,047,345	1.2	1,879
Reserve	57,168,784	2.6	4,468
Total	81,216,129	3.8	6,347
Capital from outside sources:			
Deposits on current account	206,530,460	9.7	16,139
Savings deposits	1,659,073,346	78.0	129,644
Other liabilities	181,078,836	8.5	14,151
Total	2,046,682,642	96.2	159,934
Total working capital	2,127,898,771	100.0	166,281

Before passing from this subject it may be noted that great variations are found in the details when different credit unions are under consideration, but the variations are no greater than those found in national, state, and private banks of this country; and the variations between the institutions in the German Empire are no greater than those between Germany and Italy, Austria, Ireland, or Russia. It is therefore unnecessary to present detailed statistics showing the status of these small primary credit societies in the different countries where these institutions were inspected. It should be noted in passing that while in some countries the local deposits play an important part in others local deposits are insignificant.

LOANS AND INVESTMENTS.

The real object of these banks or credit unions is to secure credit and money for the members, and it therefore naturally follows that the capital obtained from the various sources just examined is used almost entirely for making advances to members. In institutions where the working capital exceeds the demand of the local community the surplus is devoted to safe, profit-yielding investments, and the common practice is to deposit this chiefly in central institutions. The leading classification of the loans and investments may be best indicated as follows: Loans are made, first, for fixed periods; and, second, on current account. Other assets represent investments, deposits in institutions, etc. Just as the savings deposits are about eight times as important as the deposits on current account in Germany, so loans made for fixed periods are about three times as important as loans on current account. Continuing to use Germany as an illustration, we find that more than 55 per cent of all loans and investments are made for fixed periods, whereas less than 22 per cent are on current account.

In connection with loans and investments, the "amount" of loans is important, but the "period" of loans is probably as important as any other feature. In the first two or three pages of this section of the report "pertaining to personal or short-term credit" some attention was given to the length of time for which farmers need to borrow. It was pointed out that loans to farmers generally must extend over periods from 90 days to 1 year. An examination of the practice of credit unions in Europe shows that loans generally vary from six months to two or three years. It is true that more than

one-fifth of the loans are on current account, and these probably do not extend for as long a period as six months. On the other hand, more than half of the loans are for fixed periods and extend over a longer period. In exceptional cases loans are made for even longer periods than for three years. The principal safeguard for the success of rural banks when loans and investments are under consideration lies in the very character of these primary units. The limited area of operation and the nature of rural life, together with the very small membership, make it possible for each member to keep an eye on the affairs of his fellow member, in which, moreover, he is directly interested. Indeed, farmers generally can easily judge at any moment of the solvency of their neighbors and know from day to day just how their neighbors are utilizing the money obtained from the credit union.

A common characteristic of these institutions is the provision that the applicant for a loan must declare the purpose for which it is to serve. In some cases the rules are so strict that, if a member applies for a loan for one purpose and uses it for another, he must be excluded from membership for a period of time and upon second offense must be prohibited from ever receiving further loans for any purpose. This rule has proved very efficacious, according to most reports. Variations are found in the different countries. Thus, as an illustration, in Italy loans are of two kinds and are generally made on the security of bills. These loans are frequently distinguished as short-time loans extending over a period not exceeding two years and ordinarily renewed every three months. The second type of loan frequently extends for as long a period as 10 years, and in these cases is commonly repaid by installments. Generally speaking, the interest on loans for long periods is slightly higher than the rate on short-time loans in this type of institution.

PROFITS AND LOSSES.

The purpose of credit unions is not to make commercial profits, but to give credit to members on favorable terms. As generally found throughout Europe this system does not even admit of any distribution of dividends. Where this rule is in complete force, all net earnings or profits are carried to the reserve fund or used in the creation of institutions of public utility or are devoted to the common good. A few of the credit unions, however, and particularly those which have a material share capital, provide for the distribution of dividends, but even in these cases rules are very strict, and the dividends never exceed the maximum rate of interest charged the borrower. In Austria the profits are never paid in the form of interest on shares, except in the very rarest cases, being placed in the reserve almost always, although in some cases small amounts are devoted to the common good. The same general rule applies in the case of Italy and other European countries.

The fact that no dividends are paid, or that dividends when paid are insignificant, does not mean that these credit unions are not prosperous. Taking Germany again as an illustration, because of the fact that Germany has literally thousands of these societies, we find that the great majority close their business each year with a respectable fund designated "net earnings." Out of the 12,797 credit unions referred to in the small table presented above, 11,795, or more

than 92 out of each 100, closed the last fiscal year for which reports are available with net earnings, while only 911, or 7 out of each 100, declared a loss. Ninety institutions closed their business for the year with a balanced sheet, showing neither profit nor loss.

If we take the total result of all these credit unions under consideration, the net earnings, after subtracting losses, amount to not far from $2,000,000 for one year, or almost 30 per cent of the share capital of these institutions; but, as noted above, this is not declared in the form of dividends on the share capital, and, as a matter of fact, when the total working capital is considered, these profits represent only about 0.4 per cent, showing what a narrow margin the institutions consider safe.

During the last decade reserves have rapidly been increased, so that, generally speaking, these institutions are rapidly establishing themselves on such a safe basis that temporary losses are taken care of from reserve funds and no suffering results. The small difference between the interest charged on loans and the interest paid on deposits covers the management expenses, which amount to very little, since the general rule for credit unions is voluntary or gratuitous service. A successful farmer or farmer's son, the local priest or schoolmaster, or a local merchant or other local resident acts as chief clerk or manager, and although frequently he receives rent of a small home and possibly some little gratuity, salaries are not generally paid. Running expenses principally include an insignificant amount for rental and cost of business forms, etc.

CENTRAL BANKS AND FEDERATIONS.

These small credit societies or banks are closely related to each other through federations. Central banks are thus provided and a system of connected credit and banking is completed. The systems of federation are clearly described in other literature published by the commission (S. Doc. No. 214, 63d Cong., 1st sess.) and need not be further given in detail here.

SUMMARY.

A careful examination of the descriptions of these European banks or credit unions suggests the questions: Are these institutions necessary in this country; and if so, should they be provided for by law, or is any legislation necessary?

The members of your commission feel that such institutions are necessary in many, if not all, country communities in the United States. We will not take space or time here to establish this position, believing that it represents the unanimous opinion of farmers and of unbiased or unprejudiced observers acquainted with the problem.

The members of your commission are of the opinion that credit unions could be organized in almost every State in the Union, if not in every State, without specific legislation, as they were organized in many European countries and as they have already been launched in several American States. At the same time it is believed that legislation clearly defining credit unions, their scope, their functions, their methods of operation and limitations, as well as a system of inspection or supervision of these institutions, is eminently desirable.

The members of your commission are agreed that it is clearly within the power of the different States to pass the necessary legis-

lation, and we desire to call the attention of Congress to the specific laws of Massachusetts, New York, Wisconsin, and Texas providing for credit unions within those States.

CONCLUSIONS AND RECOMMENDATIONS.

The minimum capital for banks organized under Federal charter is fixed at $25,000 in the national-bank act. The Federal reserve act reenacted this provision in fixing the capitalization for member banks in the new system. It follows, therefore, that the rediscount privilege created by the new law is extended only to banks having a capital equal to that of national banks under the old law.

There are more than 8,000 State and private banks in the United States with a smaller capital than that required by law of member banks in the new system. These banks are located mainly in small country villages and do business either directly or indirectly with farmers. No reorganization of our national banking system can be complete and just to the agricultural interests which deprives or withholds from these small banks participation in the benefits of the Government rate of discount.

In order to be sure of its ground, your commission addressed letters of inquiry to several hundred of these small State and private banks, asking if it was their purpose to increase their capital so as to join the new system; and if not, whether they would join were the capitalization to be reduced to $10,000. The replies were practically unanimous. These banks will not increase their capital, because in most instances a capital of $25,000 is not warranted by the volume of business transacted by them; this minimum is excessive for banks located in thinly settled farming districts. For this reason, then, and not from any spirit of hostility to it, these banks will not enter the new system. The very large majority of those replying stated that with a minimum capital of $10,000 they would reorganize and become member banks of the regional system.

The decision of these country banks renders it certain that without amendment to the national-bank act relatively few farmers can become patrons of member banks in the reserve system. Thus the advantage of direct Government rediscount—which is the rational basis of all approved systems of short-time rural credit—will be largely withheld from farmers because of their residence in thinly settled parts of our country. Our rural population is justly entitled to receive credit direct from reserve banks in the same degree that urban population enjoys this advantage; and the method of bank organization should be such that residents of country districts can successfully overcome the disadvantages of their environment.

Your commission is of the opinion that a very few changes in the present banking systems would better adapt large numbers of existing small banks to the needs of great numbers of farmers and farm laborers, and at the same time leave these institutions unimpaired to perform the commercial functions for which they were primarily established.

We do not present a bill to effect the changes which seem to us to be desirable because we believe that the Committees on Banking and Currency in the Senate and the House of Representatives, through many years' study of the banking laws of this country, are better

qualified to perfect the amendments necessary than are the members of our commission. We content ourselves in bringing to your attention some of the more important details involved.

Having all of these facts in mind, your commission is of the opinion that it would be wise to provide for the incorporation of banking associations under Federal charter with a capital of less than $25,000. The specific recommendation is that section 5138 of the national-bank act, as amended in 1900, be further amended to provide that banks with a capital of from $2,000 to $25,000 may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed 2,500 inhabitants.

Your commission would also recommend that all national banking associations with a capital of less than $25,000 should have a distinctive name, such as National *Rural* bank, and in this event provision should be made prohibiting all other banking associations organized under either State or National law from using the distinguishing word "Rural" as a part of their title.

It is the judgment of your commission that in the provision for these national rural banks two types should be recognized by an arbitrary line of demarcation based upon the amount of capital. We therefore recommend that national rural banks having a capital of less than $10,000, divided into shares of small par value, be permitted to do business only with members or their own shareholders, unless in the judgment of Congress they should be given the right to accept deposits from a wider clientele. This principle has been conclusively demonstrated in European experience and can be safely accepted. If the privilege be given to accept deposits from other than shareholders, it might be well to increase the degree of liability above that of double, or to permit such liability to be accepted voluntarily by the shareholders. The cooperative features suggested in the report pertaining to small farm-land banks could be adopted to advantage here. While under this form of organization, viz, that of limited banking power and small capitalization, these banks should be given the privilege of depositing any or all of their moneys in the postal savings banks. Your commission has satisfied itself that there are no administrative difficulties to be encountered, and this privilege is freely extended in European countries. It is not necessary to specify the manifest advantage which this privilege will give to a small bank doing a limited business in a small country village, which is the natural home of this class of banks. On the other hand, it is our opinion that national rural banks with a paid up capital of $10,000 and less than $25,000 should have the right to do a full banking business under the national-bank act, except holding a membership in the Federal reserve system. This provision of law would make it possible for small private and State banks to reincorporate as national rural banks.

Authority to incorporate national rural banks with a capital less than $25,000 would in itself not be sufficient, since these small institutions would, under the present banking laws, be debarred from the Federal reserve system. It is the judgment of your commission that the best way to overcome this difficulty would be to amend section 5133 of the national-bank act by providing for the formation of national banks, with the approval of the Secretary of the Treasury, by any number of these rural banks, "not less in any case than five,"

and having an aggregate paid up capital of not less than $50,000. In this connection it doubtless would be necessary to require all rural banks forming a national bank to be in one and the same Federal reserve district, and to stipulate that the national bank, when formed, should become at once a member of the reserve bank in the district in which it was located. In the formation of a national bank by rural banks it would probably be desirable to require them to hold 60 per cent of the capital stock of such member bank, thus leaving not to exceed 40 per cent for popular subscription. In this way country communities and agricultural interests could participate to the best advantage in the rediscount privileges provided by the Federal reserve act.

Students of this subject will recognize in these suggestions the elements of the French system of rural banks, which is the latest system to be devised and which has been tested sufficiently by actual experience to prove its efficacy. Happily, these principles adapt themselves very easily to our reserve system, and in our opinion would prove of large benefit to our rural population. We are aware that France supplements the rediscount advantage by the deposit of considerable sums of public moneys in these banks to be loaned exclusively to farmers. The Government of France is also very friendly to the agricultural interests of the nation and encourages a liberal policy by the Bank of France in extending rediscount privileges to the farm paper held by these small banks. The commission feels justified in assuming that the Federal reserve act will be administered in a similar spirit toward our agricultural interests; and, while making no recommendations to that effect, the commission records its conviction that in some sections of the United States either aid of similar character by our Government will be necessary or founders' shares will have to be purchased by men who are inspired by altruistic motives, if personal loans are to be speedily extended to farmers in all sections of the Republic at fair rates of interest.

Banking laws have been unfair to rural industry because farmers have been widely scattered and not in a position to use them, and because no special type of institution has been provided in the past to care for their special needs. As a result these laws have militated against the growth of industrial democracy, and unless supplemented will destroy the fruition of the new freedom to a large part of our industrial population.

Your commission believes that it is also within the power of Congress to pass laws providing for credit unions or cooperative credit associations and making them fiscal agents of the National Government; but the conditions of agriculture differ so widely, the needs of farmers vary so greatly, and the status of the different classes of people in rural communities are so unlike, that it is our opinion that such laws where called for can best be enacted by the various State legislatures.

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